

Message Text

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PAGE 01 LISBON 05044 191223Z

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DEPT PASS AID FOR NOOTER AND BIRNBAUM

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SUBJ: ECONOMIC COOPERATION TEAM TO PORTUGAL

REF: LISBON 5014

AFTER FIVE DAYS OF DISCUSSIONS VARIOUS GOP MINISTRIES,
LUKENS/PATTERSON/GRIFFEL TEAM AGREED THAT LATTER TWO AID
MEMBERS WOULD PRESENT THEIR VIEWS TO LUKENS FOR HIS INCLUSION
IN FINAL REPORT. FOLLOWING OBSERVATIONS BY PATTERSON REPRE-
SENT THOSE JOINTLY DISCUSSED WITH GRIFFEL:

1. PER DISCUSSIONS IN DEPARTMENT AND AID, PRIOR TO
DEPARTURE, TEAM POSTURE WAS ONE OF "CREATIVE LISTENING"
DESIGNED TO UNDERSTAND MORE FULLY NATURE OF GOP REQUESTS
AND PRIORITIES IN ECONOMIC FIELDS, AND RELATIONSHIP SPECIFIC
PROJECT PROPOSALS TO BROADER DEVELOPMENT PLANS AND GOALS OF
PROVISIONAL GOVERNMENT. THROUGHOUT DISCUSSIONS TEAM
EMPHASIZED TECHNICAL NATURE OF MISSION AND IN RESPONSE
TO ENQUIRIES OF POSSIBLE U.S. ASSISTANCE STATED THAT VARIETY
OF MECHANISMS EXISTED IN U.S. GOVERNMENT TO PURSUE THE IN-
TENSIFIED COOPERATION IN ECONOMIC FIELDS AGREED TO BY THE
TWO PRESIDENTS. THE PURPOSE OF THIS TEAM WAS TO UNDERSTAND
GOP PROPOSALS MORE THOROUGHLY IN ORDER ENABLE USG TO DETER-
CONFIDENTIAL

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PAGE 02 LISBON 05044 191223Z

MINE WHICH MECHANISMS FOR COOPERATION MOST APPROPRIATE.

2. WITH RESPECT TO OVERALL ECONOMIC PERFORMANCE

PLANNING AND FINANCE MINISTRY AUTHORITIES IN INITIAL GENERAL SESSIONS MADE POINT THAT WHILE ECONOMY NOT ON THE VERGE OF COLLAPSE, INFLATION, BALANCE OF PAYMENTS, UNEMPLOYMENT AND THE LACK OF INVESTMENT WERE ALL SERIOUS PROBLEMS. THE PREVIOUS HEALTHY FOREIGN EXCHANGE RESERVE POSITION CONCEALED BASIC STRUCTURAL WEAKNESSES IN THE PORTUGUESE ECONOMY WITH THE COST OF PORTUGAL'S IMPORTS RISING 60 PERCENT WHILE THE VALUE OF ITS EXPORT ROSE ONLY 20 PERCENT. WITH DECLINE IN EMIGRANT REMITTANCES AND TOURISM AS WELL AS HIGH OIL PRICES AND RECESSION IN EUROPE, RESULT IS RAPIDLY DETERIORATING TERMS OF TRADE. FROM A BALANCE OF PAYMENTS SURPLUS OF \$2.8 MILLION IN JANUARY 1974, THE DEFICIT THROUGH OCTOBER 1974 IS \$400 MILLION AND EXPECTED TO BE \$600 MILLION FOR THE YEAR. THIS REPRESENTS A DECLINE IN RESERVE COVERAGE FROM ABOUT 10 MONTHS OF IMPORTS AT END OF 1973 TO ABOUT FIVE MONTHS AT THE END OF 1974. SURPLUS AT END OF 1975 IS PROJECTED TO BE REDUCED TO ONLY TWO MONTHS' WORTH OF IMPORTS.

3. PLANNING AUTHORITIES STRESSED THAT INTERIM DEVELOPMENT PLAN IS NOW IN PREPARATION WHICH WOULD HAVE TO YIELD TO MORE REFINED PLAN AFTER ELECTIONS IN MARCH. NEVERTHELESS, SOME GENERAL PRIORITIES WERE CLEAR: FUTURE INVESTMENTS WERE TO BE MORE DIRECTLY RELATED TO IMPROVING INCOME, PRODUCTIVITY AND LIVING STANDARD OF AVERAGE PORTUGUESE CITIZEN. THEREFORE, EMPLOYMENT WOULD BE A MAJOR OBJECTIVE AS WOULD LOW-COST HOUSING, THE MODERNIZATION OF AGRICULTURE, IMPROVED RURAL HEALTH AND EDUCATION, AND THE MODERNIZATION OF THE PRODUCTIVE BASE OF PORTUGUESE ECONOMY THROUGH LARGE-SCALE INVESTMENTS IN TRANSPORTATION (ESPECIALLY RAIL TRANSPORT), PORT MODERNIZATION, AND POWER GENERATION AND DISTRIBUTION.

4. SPECIFIC PROJECTS DISCUSSED IN RESPECTIVE MINISTRIES WERE:

A) CROPS AND LIVESTOCK IN ALENTEJO AND IN NORTH;
B) LIVESTOCK PROJECT IN AZORES; C) REFORESTATION AND MODERNIZATION OF PULP INDUSTRY; D) MIDDLE-LEVEL AND VOCATIONAL EDUCATION INCLUDING EDUCATIONAL TECHNOLOGY; E) RURAL EDUCATION; F) RURAL HEALTH CLINICS; G) RAILWAY MODERNIZATION; H) URBAN RAIL TRANSPORT IN LISBON AND OPORTO AREAS;

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PAGE 03 LISBON 05044 191223Z

I) CONTAINER SHIPPING PORT FACILITIES AND PORT EXPANSION IN AZORES AND MADEIRA; J) ELECTRIC POWER GENERATION AND DISTRIBUTION. GRIFFEL HAS DETAILS THESE PROJECTS AS WELL AS JOINTLY DISCUSSED ALTERNATIVES OF POSSIBLE U.S. INVOLVEMENT.

5. DISCUSSIONS THROUGHOUT MINISTRIES REPRESENTED HIGH DEGREE PROFESSIONAL COMPETENCE AND WEIGHING OF INVESTMENT PRIORITIES. MOST PROJECT PROPOSALS HAD ALSO BEEN PRESENTED

TO RECENT WORLD BANK TEAM, AND FOLLOW-UP BANK MISSION
SCHEDULED FOR JANUARY.

6. IN FINAL SESSIONS WITH MINISTER OF FINANCE LOPES
AND FOREIGN MINISTER SOARES, CONTINUING BURDEN ON GOP OF
RESPONSIBILITIES IN AFRICAN COLONIES WAS STRESSED AND
NEED FOR FRIENDS TO HELP SHOULDER THAT BURDEN. ALSO AS
REPORTED REFTEL, FOREIGN MINISTER SOARES STRESSED EMPHATI-
CALLY POLITICAL NECESSITY SOME DEMONSTRABLE EVIDENCE U.S.
SUPPORT WELL BEFORE ELECTIONS IN MARCH.

7. ON BASIS TEAM'S DISCUSSION GRIFFEL/PATTERSON
IDENTIFIED SEVERAL OPTIONS FOR U.S. ASSISTANCE: 1) HOUSING
INVESTMENT GUARANTIES WHICH RESPONSIVE TO ONE OF GOP'S
HIGHEST PRIORITIES; 2) CONSULTANT SERVICES AND TECHNICAL
EXCHANGE IN VARIETY OF FIELDS EARLY ANNOUNCEMENT OF WHICH
WOULD BE OF GREAT POLITICAL BENEFIT; 3) POSSIBLE EX-IM
FINANCING SEVERAL ITEMS AS WELL AS OTHER OPTIONS. TEAM FIRMLY
BELIEVES THAT RESPONSIBILITY FOR NEXT STEP IN DETERMINING
NATURE ECONOMIC RELATIONSHIPS NOW LIES WITH U.S. AND THAT
ANY FOLLOW-ON DISCUSSIONS BE OF A SPECIFIC SECTORAL NATURE
AFTER THE PARAMETERS OF U.S. INVOLVEMENT HAVE BEEN DECIDED.
BECAUSE OF IMPORTANCE TO PORTUGUESE ECONOMY OF CONTINUED
EXPENDITURES IN AFRICA, SUGGEST CONTINUED CLOSE COORDINATION
WITHIN USG OF ANY PLANS FOR ASSISTANCE THERE TO PROPOSALS
FOR METROPOLITAN PORTUGAL.

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